

LYRIC OPERA OF CHICAGO
Chicago, Illinois

FINANCIAL STATEMENTS
June 30, 2014 and 2013

LYRIC OPERA OF CHICAGO

Chicago, Illinois

FINANCIAL STATEMENTS

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CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENTS OF CASH FLOWS.....	6
NOTES TO FINANCIAL STATEMENTS	7
SUPPLEMENTAL SCHEDULES	
STATEMENTS OF OPERATING ACTIVITIES	25
STATEMENT OF ACTIVITIES – COLUMN FORMAT.....	26

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Lyric Opera of Chicago
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Lyric Opera of Chicago (the Opera), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the year ended June 30, 2014 and the fourteen months ended June 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lyric Opera of Chicago as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the year ended June 30, 2014, and the fourteen month period ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of operating activities for the years ended June 30, 2014 and 2013, and the accompanying statement of activities column format which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for that portion marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Crowe Horwath LLP

Chicago, Illinois
October 30, 2014

LYRIC OPERA OF CHICAGO
 STATEMENTS OF FINANCIAL POSITION
 As of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,279,116	\$ 8,873,660
Short-Term Investments	24,386,156	15,973,765
Ticket and Other Receivables	1,175,996	1,665,696
Pledge and Bequest Receivables, net	11,584,355	7,442,354
Deferred Production Costs and Other Assets	<u>4,025,927</u>	<u>4,211,687</u>
Total Current Assets	42,451,550	38,167,162
Long-Term Assets		
Pledge and Bequest Receivables, net	47,775,918	33,272,931
Long-Term Investments	183,754,700	162,544,155
Deferred Bond Issuance Costs, net	935,609	1,012,666
Property and Equipment, net	<u>46,946,621</u>	<u>47,987,954</u>
Total Long-Term Assets	<u>279,412,848</u>	<u>244,817,706</u>
Total Assets	<u>\$ 321,864,398</u>	<u>\$ 282,984,868</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable and Other Liabilities	\$ 3,847,756	\$ 4,042,257
Deferred Ticket and Other Revenue	13,750,286	14,525,388
Severance Plans	396,869	350,228
Interest Rate Swap	<u>1,465,202</u>	<u>1,448,491</u>
Total Current Liabilities	19,460,113	20,366,364
Long-Term Liabilities		
Severance Plans	4,174,189	3,690,012
Bonds Payable	65,700,000	65,700,000
Interest Rate Swap	<u>7,817,762</u>	<u>7,539,088</u>
Total Long-Term Liabilities	<u>77,691,951</u>	<u>76,929,100</u>
Total Liabilities	97,152,064	97,295,464
Net Assets		
Unrestricted	107,973,222	95,061,711
Temporarily Restricted	91,402,194	66,007,882
Permanently Restricted	<u>25,336,918</u>	<u>24,619,811</u>
Total Net Assets	<u>224,712,334</u>	<u>185,689,404</u>
Total Liabilities and Net Assets	<u>\$ 321,864,398</u>	<u>\$ 282,984,868</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2014 and For the Fourteen Months Ended June 30, 2013

	Year Ended <u>June 30, 2014</u>	Fourteen Months Ended <u>June 30, 2013</u>
Changes in Unrestricted Net Assets		
Operating		
Revenue and Support		
Revenue		
Ticket Sales	\$ 28,877,637	\$ 26,671,273
Spending Draw	7,502,963	8,342,619
Investment Income	247,031	196,240
Other	<u>3,736,516</u>	<u>3,672,271</u>
Total Revenue	<u>40,364,147</u>	<u>38,882,403</u>
Support		
Contributions and Fundraising Revenue, net	12,094,379	14,602,194
Net Assets Released from Restriction and Designation	<u>18,901,189</u>	<u>14,804,905</u>
Total Support	<u>30,995,568</u>	<u>29,407,099</u>
Total Operating Revenue and Support	<u>71,359,715</u>	<u>68,289,502</u>
Expenses		
Artistic, Production and Promotional	61,667,086	58,200,440
Administration	6,628,357	6,703,088
Development	<u>3,064,272</u>	<u>3,385,974</u>
Total Expenses	<u>71,359,715</u>	<u>68,289,502</u>
Change in Operating Net Assets	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENTS OF ACTIVITIES
For the Year ended June 30, 2014 and For the Fourteen Months Ended June 30, 2013

	Year Ended <u>June 30, 2014</u>	Fourteen Months Ended <u>June 30, 2013</u>
Changes in Unrestricted Net Assets		
Non-Operating		
Revenue and Support		
Contributions	\$ 1,093,099	\$ 620,303
Investment Income, net of Spending Draw	12,867,448	3,229,660
Unrealized (Loss) Gain on Interest Rate Swap	(295,385)	3,173,866
Other	6,306	8,313
Net Assets Released from Restriction and Designation	<u>3,636,740</u>	<u>(660,412)</u>
Total Revenue and Support	<u>17,308,208</u>	<u>6,371,730</u>
 Expenses		
Depreciation	3,177,161	3,512,924
Other	<u>1,219,536</u>	<u>722,641</u>
Total Expenses	<u>4,396,697</u>	<u>4,235,565</u>
 Change in Non-Operating Unrestricted Net Assets	<u>12,911,511</u>	<u>2,136,165</u>
 Change in Unrestricted Net Assets	<u>12,911,511</u>	<u>2,136,165</u>
 Changes in Temporarily Restricted Net Assets		
Contributions	40,657,292	32,139,076
Investment Income	7,274,949	4,193,100
Net Assets Released from Restriction	<u>(22,537,929)</u>	<u>(14,144,493)</u>
 Change in Temporarily Restricted Net Assets	<u>25,394,312</u>	<u>22,187,683</u>
 Changes in Permanently Restricted Net Assets		
Contributions	<u>717,107</u>	<u>1,906,279</u>
 Change in Net Assets	39,022,930	26,230,127
 Net Assets at Beginning of Period	<u>185,689,404</u>	<u>159,459,277</u>
 Net Assets at End of Period	<u>\$ 224,712,334</u>	<u>\$ 185,689,404</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
STATEMENTS OF CASH FLOWS
For the Year ended June 30, 2014 and For the Fourteen Months Ended June 30, 2013

	Year Ended <u>June 30, 2014</u>	Fourteen Months Ended <u>June 30, 2013</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 39,022,930	\$ 26,230,127
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation and Amortization	3,258,259	3,628,138
Net Realized and Unrealized Gains on Investments	(26,644,420)	(14,188,738)
Net Interest Rate Swap Settlements	1,476,357	1,706,584
Unrealized Losses (Gains) on Interest Rate Swap	295,385	(3,173,865)
Contributions Permanently Restricted for Endowment	(717,107)	(1,906,278)
Increase in Unrestricted and Temporarily Restricted Pledge and Bequest Receivables	(18,447,881)	(15,770,236)
Decrease in Ticket and Other Receivables	489,700	1,088,397
Decrease (Increase) in Deferred Production Costs and Other Assets	185,760	(1,511,057)
Decrease in Accounts Payable and Other Liabilities	(194,501)	(580,038)
(Decrease) Increase in Deferred Ticket and Other Revenue	(775,102)	1,887,809
Increase in Severance Plans	<u>530,818</u>	<u>385,110</u>
Net Cash Used In Operating Activities	(1,519,802)	(2,204,047)
Cash Flows from Investing Activities		
Sale of Investments	32,741,015	47,107,119
Purchase of Investments	(35,719,531)	(36,887,391)
Net Interest Rate Swap Settlements	(1,476,357)	(1,706,584)
Fixed Asset Additions:		
Facilities	(848,730)	(650,234)
Equipment and Other Assets	<u>(1,291,139)</u>	<u>(1,438,327)</u>
Net Cash (Used In) Provided By Investing Activities	(6,594,742)	6,424,583
Cash Flows from Financing Activities		
Contributions Permanently Restricted for Endowment	<u>520,000</u>	<u>10,000</u>
Net Cash Provided by Financing Activities	<u>520,000</u>	<u>10,000</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(7,594,544)	4,230,536
Cash and Cash Equivalents at Beginning of Year	<u>8,873,660</u>	<u>4,643,124</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,279,116</u>	<u>\$ 8,873,660</u>
Supplemental Disclosure of Cash Flow Information		
Interest Paid	<u>\$ 1,690,827</u>	<u>\$ 2,020,834</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: Lyric Opera of Chicago (the Opera) is a not-for-profit corporation incorporated in the State of Illinois. The Opera's primary purpose is to sponsor, produce, and encourage opera and musical performances. The Opera's operations include international grand opera, educational and community engagement activities through Lyric Unlimited, other musical performances and the training for young artists through the Patrick G. and Shirley W. Ryan Opera Center (the Ryan Opera Center).

Basis of Accounting: The accounting records of the Opera are maintained on the accrual basis and include the operations of the Ryan Opera Center.

Fiscal Year: Expanded programming necessitated the Opera to change its fiscal year-end from April 30 to June 30 beginning with fiscal 2013. In the preceding Statements of Activities and Cash Flows, as well as the accompanying footnotes, the period ended June 30, 2013 includes activities for 14 months. The period ended June 30, 2014 includes activities for 12 months.

Basis of Presentation: Resources of the Opera are classified for reporting purposes into the following three net asset categories according to the existence or absence of donor-imposed restrictions:

- **Unrestricted Net Assets** - net assets which are not subject to donor-imposed restrictions including the carrying value of physical properties (land, facilities and equipment). Items which increase or decrease this net asset category include revenue—principally ticket sales and investment income unless donor-restricted, and all expenses of the Opera. This category also includes unrestricted gifts and restricted gifts whose donor-imposed or time restrictions were met during the fiscal year.

Within unrestricted net assets are:

- Operating unrestricted net assets - include all unrestricted operating revenue and expenses that are an integral part of its programs and supporting activities, interest expense and other debt service costs, net assets released from donor restrictions to support operating activities, and distributions in accordance with the Opera's spending policies and capital campaigns.
- Non-Operating unrestricted net assets - include unrestricted investment returns in excess of the Opera's spending policy, capitalized property and equipment and its related depreciation, the actuarial change in severance plans' valuation, and the unrealized balance in the value of the swap. Unrestricted charitable gift annuities are recorded in Revenue and Support as contributions.
- **Temporarily Restricted Net Assets** - net assets subject to donor-imposed restrictions which may be met either by actions of the Opera or the passage of time. Items which increase this net asset category are gifts for which donor-imposed restrictions have not been met and accumulated income on restricted net assets.
- **Permanently Restricted Net Assets** - net assets subject to donor-imposed restrictions stipulating the corpus be held in perpetuity.

Cash and Cash Equivalents: Cash and cash equivalents consist of highly liquid, interest-bearing, investments with original maturities of less than three months.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-Term Investments: Short-term investments consist of short-term fixed income mutual funds.

Pledge and Bequest Receivables: Contributions, including cash or other assets, as well as unconditional promises to give, are recognized in the period received.

Contributions are classified as unrestricted or restricted support based on donor-imposed restrictions. When a donor restriction expires (i.e., when a stipulated time restriction ends or a purpose restriction is met), the Opera reclassifies the temporarily restricted net assets to unrestricted net assets and reports these assets as released from restriction. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the Opera classifies the support as unrestricted, except for production sponsorship where the contribution is classified as temporarily restricted until the opening of the production.

As of June 30, 2014 and 2013, contributors to the Opera have made unconditional promises to give, which are due as follows:

<u>June 30, 2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Less than one year	\$ 2,573,761	\$ 9,351,356	\$ -	\$ 11,925,117
One to five years	745,000	31,630,283	1,500,000	33,875,283
More than five years	-	7,700,000	-	7,700,000
With no due date	<u>75,000</u>	<u>12,729,462</u>	<u>1,038,667</u>	<u>13,843,129</u>
Gross	3,393,761	61,411,101	2,538,667	67,343,529
Less discount	35,669	6,158,647	423,728	6,618,044
Less allowance	<u>62,649</u>	<u>1,297,307</u>	<u>5,256</u>	<u>1,365,212</u>
Net	<u>\$ 3,295,443</u>	<u>\$ 53,955,147</u>	<u>\$ 2,109,683</u>	<u>\$ 59,360,273</u>
<u>June 30, 2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Less than one year	\$ 2,224,171	\$ 5,615,972	\$ -	\$ 7,840,143
One to five years	853,169	22,859,953	2,000,000	25,713,122
More than five years	-	1,800,000	-	1,800,000
With no due date	<u>75,000</u>	<u>11,228,212</u>	<u>21,553</u>	<u>11,324,765</u>
Gross	3,152,340	41,504,137	2,021,553	46,678,030
Less discount	33,703	4,506,051	103,722	4,643,476
Less allowance	<u>11,706</u>	<u>1,302,307</u>	<u>5,256</u>	<u>1,319,269</u>
Net	<u>\$ 3,106,931</u>	<u>\$ 35,695,779</u>	<u>\$ 1,912,575</u>	<u>\$ 40,715,285</u>

Unconditional pledges expected to be received over more than one year are recorded by the Opera at their net realizable value using a discount rate equivalent to treasury yields.

Deferred Production Costs: Expenditures for scenery, costumes, and stage properties are recorded as deferred production costs if specifically related to productions of future opera seasons and expensed if used in productions of the current opera season.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Investments: Long-term investments, consisting primarily of publicly traded equity and fixed income mutual funds, alternative investments and real assets, are stated at fair value. For investment purposes, unrestricted funds are commingled with endowment funds to constitute the managed portfolio.

Property and Equipment: Purchases of property and equipment greater than \$3,500 that have a useful life of more than one year are capitalized at their original cost or estimated fair value at the date of donation. Provisions for depreciation are computed on the straight-line method based on estimated useful lives ranging from three to forty years.

Property and equipment consist of:

	<u>2014</u>	<u>2013</u>
Land	\$ 696,577	\$ 696,577
Equipment	10,025,505	8,850,750
Facilities	89,346,541	88,497,811
Less: accumulated depreciation	<u>53,122,002</u>	<u>50,057,184</u>
Net	<u>\$ 46,946,621</u>	<u>\$ 47,987,954</u>

Donated assets, or assets acquired with gifts restricted to the purchase of long-lived assets, are reclassified to unrestricted net assets as depreciation is recognized.

On an ongoing basis, the Opera reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. As of June 30, 2014 and 2013, management believes that no impairments existed.

Deferred Ticket Revenue: Deferred ticket revenue relates to ticket sales for the following season.

Interest Rate Swap: The Opera entered into an interest rate swap agreement as part of its interest rate risk management strategy, not for speculation. Although the Opera believes the derivative would qualify as a hedge, accounting standards for not-for-profits allow reporting the instrument as a freestanding derivative.

Donated Services and Materials: The Opera records various types of in-kind support, including contributed services, equipment, and other goods. Contributions of tangible assets and services are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or assets. Donated services and materials were \$872,774 and \$620,071 for the periods ended June 30, 2014 and 2013, respectively.

During the periods ended June 30, 2014 and 2013, substantial amounts of time were donated by volunteers to the Opera in its fundraising and outreach efforts. In accordance with accounting principles generally accepted in the United States of America such amounts were not recorded as contributions in the financial statements.

Realized and Unrealized Investment Gains (Losses): Changes in the fair value of investments are reported as unrestricted realized and unrealized investment gains or losses unless a donor temporarily restricts income for a specific purpose. If the earnings are on permanently restricted assets and not yet appropriated for expenditure, changes in the fair value of investments are reported as temporarily restricted.

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Operating Revenue: Other operating revenue includes revenue from various sources such as facilities rentals, concessions, production rentals, and education and community engagement activities.

Contributions and Fundraising Revenue, net: Contributions and fundraising revenue, net, includes unrestricted Annual Campaign contributions and various fundraising special events contributions, admissions, sales, and related expenses. The following table summarizes the periods ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Contributions and fundraising revenue	\$ 14,197,455	\$ 17,005,299
Special event expenses	<u>(2,103,076)</u>	<u>(2,403,105)</u>
Net	<u>\$ 12,094,379</u>	<u>\$ 14,602,194</u>

Advertising Costs: Advertising costs are either expensed as incurred or charged to prepaid expenses when directly related to ticket sales for the following fiscal year. Advertising costs charged to expense were \$3,241,800 and \$2,820,857 for the periods ended June 30, 2014 and 2013, respectively. Prepaid advertising expenses, to be expensed in the following fiscal year, were \$379,607 and \$552,690 as of June 30, 2014 and 2013, respectively.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

NOTE B – INCOME TAXES

The Opera is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Opera has concluded there were no material uncertain tax positions nor does the Opera expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Opera would recognize interest and penalties related to unrecognized tax positions in interest and income tax expense, respectively. However, the Opera has no amounts accrued for interest or penalties as of June 30, 2014 and 2013. There are no on-going federal, state or local tax audits, however, the Opera's tax returns for 2011 and subsequent years remain open to examination.

NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Opera's principal or most advantageous market in an orderly transaction between market participants on the measurement date.

NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The Opera is permitted to use a practical expedient which allows for the measurement of the fair value based on the investee's net asset value per share or its equivalent.

The fair value of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates (Level 2 inputs). The fair value of investments in limited liability partnerships are based on valuations provided by the external investment manager as of the date of their most recent audited financial statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss through the end of the fiscal year (Level 2 and Level 3 inputs).

Investment Strategies and Valuation Inputs

Fixed Income Securities consist of mutual funds which are primarily invested in debt securities. The fair value of mutual funds, which are readily marketable, is determined by obtaining quoted prices on nationally recognized securities exchanges.

Equity Securities consist of mutual funds, common trust funds, and a limited partnership, all of which are primarily invested in equity securities. The fair value of mutual funds, which are readily marketable, is determined by obtaining quoted prices on nationally recognized securities exchanges. The Opera has full transparency to the holdings of the common trust funds, and the fair value of these investments and the limited partnership investment has been determined by the managers based on the market prices of the underlying holdings. The limited partnership is invested primarily in emerging market equity securities.

Hedged Equities (Long/Short) consists of funds which seek above-average returns in all market environments. The funds invest in both long and short securities to mitigate market risk. Certain investment funds concentrate their investment programs in specific industries, sectors or market capitalization. In addition, the funds may utilize leverage, options, futures, commodities or other derivatives and may invest in non-U.S. securities and illiquid securities.

Absolute Return consists of funds which seek to generate attractive, risk-adjusted returns across all market environments. In pursuing this investment objective, the funds generally employ multiple strategies, including without limitation, (i) credit and volatility-driven strategies such as the trading of convertible, asset-backed, mortgage-backed, high-yield and distressed instruments, credit, fixed-income and capital structure arbitrage, and private placements, (ii) equity strategies, including fundamental and quantitative long-short, long only and short only equity trades, and relative value-driven equity strategies and (iii) investments in commodity derivatives and physical commodities.

(Continued)

NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

Real Assets consists of funds which invest in real estate, natural resources and credit.

- (1) Investments in real estate seek to capitalize on relative value and opportunities across various property types, geographic regions and strategies through value-added real estate investments primarily in the United States.
- (2) Natural resources consist of global investments in commodities such as metals and mining, gold and other precious metals and oil and gas exploration and production. Holdings may be comprised of equities, ETFs, debt, illiquid investments, derivatives, commodity futures and commodity future options.
- (3) Credit funds pursue investments in distressed residential mortgage market and opportunistic investments in corporate credit, real estate and asset-based lending. The fund may engage in hedging activities, including interest rate hedging, currency hedging, short sales, foreign exchange transactions, and other derivative contracts or instruments.

Assets Held in Trust – The Opera is the beneficiary of two endowment funds managed by the Chicago Community Trust. The fair value of beneficial interests is determined based upon the Opera's proportional interest in the fair value of the underlying trust assets. The underlying trust assets are either readily marketable and have fair values which are determined by obtaining quoted market prices in active markets, or are determined by the trust using information provided by the related investment manager (Level 3 inputs)[ie, income approach].

Interest Rate Swap – The fair value of the swap is computed using the present value of cash flows based on the notional amount, term, and fixed and variable interest rates contained in the contract. The model prices the instrument at an exit value were the agreement terminated at the date of valuation. Significant fair value inputs can be verified and do not involve management judgments (Level 2 inputs)[ie, income approach].

Alternative Investments consist of the hedged equities and absolute return investment categories. In addition, real assets of \$11,715,018 and \$10,023,306 as of June 30, 2014 and 2013, respectively, are considered alternative investments. The Opera generally uses the net asset value ("NAV"), but incorporates information such as historical and current performance of underlying assets, liquidity terms of the investment agreements, completed or pending transactions in the underlying or a comparable investment, and overall market conditions in determining valuations. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values, and holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, or appraisals. In some instances, the Opera possesses the ability to redeem its investment at the NAV at or near the measurement date (Level 2 inputs)[income approach]. In some instances, however, restrictions on redemptions, such as notice requirements, lock-ups and gates, may be in place such that investment redemption at NAV is not possible at the measurement date (Level 3 inputs)[ie, income approach].

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table discloses additional information about investments recorded at fair value at June 30, 2014 and 2013:

<u>June 30, 2014</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Estimated Remaining Life</u>
Fixed income securities	\$ 33,097,914	\$ -	Daily	n/a
Equity securities	91,876,649	-	Daily to monthly	n/a
Hedged equities	28,517,827	-	Monthly to one year	n/a
Absolute return	33,939,182	-	Quarterly to three years	n/a
Real assets				
Credit and real estate	8,637,008	3,670,206	Not permitted	4-11 years
Natural resources	7,588,113	-	Monthly to quarterly	n/a
Investment assets held in trust	<u>4,484,163</u>	<u>-</u>	Not permitted	n/a
 Total investments	 <u>\$ 208,140,856</u>	 <u>\$ 3,670,206</u>		
 <u>June 30, 2013</u>	 <u>Fair Value</u>	 <u>Unfunded Commitments</u>	 <u>Redemption Terms</u>	 <u>Estimated Remaining Life</u>
Fixed income securities	\$ 24,922,878	\$ -	Daily	n/a
Equity securities	77,227,795	-	Daily to monthly	n/a
Hedged equities	25,512,935	-	Monthly to one year	n/a
Absolute return	32,962,791	-	Quarterly to three years	n/a
Real assets				
Credit and real estate	7,548,880	4,697,244	Not permitted	5-12 years
Natural resources	6,341,679	-	Monthly to quarterly	n/a
Investment assets held in trust	<u>4,000,962</u>	<u>-</u>	Not permitted	n/a
 Total investments	 <u>\$ 178,517,920</u>	 <u>\$ 4,697,244</u>		

At June 30, 2014, approximately \$1,500,000 of the Opera's alternative investments are in illiquid, special investments. Unfunded commitments represent capital calls which can be made at the discretion of the general partner within contractual limits. These commitments do not represent obligations required to be accrued on the Statements of Financial Position.

Assets and liabilities measured on a recurring basis at fair value at June 30, 2014 and 2013, are summarized below:

<u>June 30, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current assets:				
Fixed income securities	\$ 24,386,156	\$ -	\$ -	\$ 24,386,156
Long-term assets:				
Fixed income securities	8,711,758	-	-	8,711,758
Equity securities				
Large cap	20,986,105	14,773,853	-	35,759,958
Small cap	65,977	5,107,372	-	5,173,349
International	30,781,935	20,161,407	-	50,943,342
Hedged equities	-	14,591,425	13,926,402	28,517,827
Absolute return	-	7,153,970	26,785,212	33,939,182
Real assets	-	7,567,820	8,657,301	16,225,121
Investment assets held				
In trust	<u>-</u>	<u>-</u>	<u>4,484,163</u>	<u>4,484,163</u>
Total long-term assets	<u>60,545,775</u>	<u>69,355,847</u>	<u>53,853,078</u>	<u>183,754,700</u>
 Total assets	 <u>\$ 84,931,931</u>	 <u>\$ 69,355,847</u>	 <u>\$ 53,853,078</u>	 <u>\$ 208,140,856</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current liabilities:				
Interest rate swap	\$ -	\$ 1,465,202	\$ -	\$ 1,465,202
Long-term liabilities:				
Interest rate swap	-	7,817,762	-	7,817,762
Total liabilities	<u>\$ -</u>	<u>\$ 9,282,964</u>	<u>\$ -</u>	<u>\$ 9,282,964</u>
June 30, 2013				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current assets:				
Fixed income securities	\$ 15,973,765	\$ -	\$ -	\$ 15,973,765
Long-term assets:				
Fixed income securities	8,949,113	-	-	8,949,113
Equity securities				
Large cap	17,630,765	11,859,440	-	29,490,205
Small cap	60,233	4,096,126	-	4,156,359
International	26,970,312	16,610,919	-	43,581,231
Hedged equities	-	13,489,781	12,023,154	25,512,935
Absolute return	-	6,847,208	26,115,583	32,962,791
Real assets	-	6,306,230	7,584,329	13,890,559
Investment assets held In trust	-	-	4,000,962	4,000,962
Total long-term assets	<u>53,610,423</u>	<u>59,209,704</u>	<u>49,724,028</u>	<u>162,544,155</u>
Total assets	<u>\$ 69,584,188</u>	<u>\$ 59,209,704</u>	<u>\$ 49,724,028</u>	<u>\$ 178,517,920</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current liabilities:				
Interest rate swap	\$ -	\$ 1,448,491	\$ -	\$ 1,448,491
Long-term liabilities:				
Interest rate swap	-	7,539,088	-	7,539,088
Total liabilities	<u>\$ -</u>	<u>\$ 8,987,579</u>	<u>\$ -</u>	<u>\$ 8,987,579</u>

The table below reconciles beginning and ending balances for Level 3 assets for the periods ended June 30, 2014 and 2013:

<u>Year Ended</u> <u>June 30, 2014</u>	<u>Hedged</u> <u>Equities</u>	<u>Absolute</u> <u>Return</u>	<u>Real</u> <u>Assets</u>	<u>Assets Held</u> <u>In Trust</u>	<u>Total</u>
July 1, 2013	\$ 12,023,154	\$ 26,115,583	\$ 7,584,329	\$ 4,000,962	\$ 49,724,028
Transfers from (to) Level 2	267,186	(329,785)	(15,157)	-	(77,756)
Purchases	-	6,000,000	1,106,365	47,237	7,153,602
(Sales)	(19,783)	(6,118,896)	(1,552,947)	(181,681)	(7,873,307)
Unrealized gains	1,656,278	862,812	1,027,779	617,645	4,164,514
Realized gains (losses)	(433)	255,498	506,932	-	761,997
June 30, 2014	<u>\$ 13,926,402</u>	<u>\$ 26,785,212</u>	<u>\$ 8,657,301</u>	<u>\$ 4,484,163</u>	<u>\$ 53,853,078</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)

Period Ended <u>June 30, 2013</u>	<u>Hedged Equities</u>	<u>Absolute Return</u>	<u>Real Assets</u>	<u>Assets Held In Trust</u>	<u>Total</u>
May 1, 2012	\$ 12,894,464	\$ 22,495,915	\$ 7,816,527	\$ 3,764,431	\$ 46,971,337
Transfers from (to) Level 2	(2,709,035)	480,757	-	-	(2,228,278)
Purchases	-	3,500,000	1,295,509	59,025	4,854,534
(Sales)	(151,569)	(2,674,051)	(3,413,914)	(183,308)	(6,422,842)
Unrealized gains	2,001,616	2,087,302	1,225,280	360,814	5,675,012
Realized gains (losses)	<u>(12,322)</u>	<u>225,660</u>	<u>660,927</u>	<u>-</u>	<u>874,265</u>
June 30, 2013	<u>\$ 12,023,154</u>	<u>\$ 26,115,583</u>	<u>\$ 7,584,329</u>	<u>\$ 4,000,962</u>	<u>\$ 49,724,028</u>

Transfers between Level 3 and Level 2 are based on changes in liquidity terms for the respective investment for the periods ended June 30, 2014 and 2013, and are recognized at those dates. The realized and unrealized gains on Level 3 investments still held at June 30, 2014 were \$4,926,511.

Investment Returns

Investment returns for the periods ended June 30, 2014 and 2013, are summarized as follows:

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Total</u>
	<u>Operating</u>	<u>Non-Operating</u>		
<u>2014</u>				
Interest and dividends	\$ 141,630	\$ 1,556,906	\$ 558,016	\$ 2,256,552
Net realized and unrealized gains	105,401	19,567,188	6,971,831	26,644,420
Investment expenses	<u>-</u>	<u>(753,683)</u>	<u>(254,898)</u>	<u>(1,008,581)</u>
Total return on investments	247,031	20,370,411	7,274,949	27,892,391
Board authorized spending draw	<u>-</u>	<u>(7,502,963)</u>	<u>-</u>	<u>(7,502,963)</u>
Total return on investments, net of spending draw	<u>\$ 247,031</u>	<u>\$ 12,867,448</u>	<u>\$ 7,274,949</u>	<u>\$ 20,389,428</u>
	<u>Operating</u>	<u>Non-Operating</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>2013</u>				
Interest and dividends	\$ 85,845	\$ 1,922,111	\$ 681,537	\$ 2,689,493
Net realized and unrealized gains	110,395	10,332,145	3,746,197	14,188,737
Investment expenses	<u>-</u>	<u>(681,977)</u>	<u>(234,634)</u>	<u>(916,611)</u>
Total return on investments	196,240	11,572,279	4,193,100	15,961,619
Board authorized spending draw	<u>-</u>	<u>(8,342,619)</u>	<u>-</u>	<u>(8,342,619)</u>
Total return on investments, net of spending draw	<u>\$ 196,240</u>	<u>\$ 3,229,660</u>	<u>\$ 4,193,100</u>	<u>\$ 7,619,000</u>

(Continued)

NOTE D – ENDOWMENT

The Opera's endowment is comprised of donor-restricted funds. Related net assets are classified and reported based on the existence or absence of donor-imposed restrictions.

The Opera has interpreted the State of Illinois' Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Opera classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment plus the original value of subsequent gifts to the permanent endowment. Accumulations to the donor-restricted permanent endowment net of Board authorized spending draws are classified as temporarily restricted net assets.

In accordance with UPMIFA, the Opera considers the following factors, among others, in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Opera and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Opera; and
- The investment policies of the Opera.

The Investment Committee of the Board of Directors establishes policies and procedures concerning the management of endowment funds. These policies establish asset classes that are deemed suitable for investment of endowment funds which currently include investments in domestic and international equities, fixed income, alternative strategies and real assets.

Endowment funds, commingled with other unrestricted funds, are managed on a total return basis taking into consideration the need to maintain the purchasing power of the managed portfolio as well as the need to support the Opera's mission.

Risk and return expectations for the managed portfolio are modeled using historical rates of return and volatility measures for various asset allocation scenarios. Investments are made in various asset classes based on policy requirements for a highly diversified portfolio in accordance with asset allocation guidelines. Actual allocations to an asset class are compared to target allocations and rebalanced as appropriate. The performance of the managed portfolio is reported on a monthly basis with a target return of 8%.

The Opera's Board of Directors has approved a spending policy which allows for the transfer of 5% of the trailing twelve quarter balance of the managed portfolio at December 31 of the previous fiscal year, including endowment balances, to be used to support operations and fund debt service. The spending rate approximates the return objective of the fund allowing for the preservation of purchasing power and growth of the managed portfolio through investment returns in excess of the objective and new gifts.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE D – ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of June 30, 2014 and 2013:

<u>June 30, 2014</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Pledges receivable, net	\$ -	\$ 2,114,939	\$ 2,114,939
Donor restricted endowment funds	24,252,950	23,208,979	47,461,929
Interfund receivable	<u>-</u>	<u>13,000</u>	<u>13,000</u>
Total net assets	<u>\$ 24,252,950</u>	<u>\$ 25,336,918</u>	<u>\$ 49,589,868</u>

<u>June 30, 2013</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Pledges receivable, net	\$ -	\$ 1,917,832	\$ 1,917,832
Donor restricted endowment funds	18,910,141	22,688,979	41,599,120
Interfund receivable	<u>-</u>	<u>13,000</u>	<u>13,000</u>
Total net assets	<u>\$ 18,910,141</u>	<u>\$ 24,619,811</u>	<u>\$ 43,529,952</u>

Changes in endowment net assets for the periods ended June 30, 2014 and 2013:

<u>Year Ended June 30, 2014</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at beginning of year	\$ 18,910,141	\$ 24,619,811	\$ 43,529,952
Investment return			
Investment income	283,587	-	283,587
Net appreciation (realized and unrealized)	<u>6,955,812</u>	<u>-</u>	<u>6,955,812</u>
Total investment return	7,239,399	-	7,239,399
Contributions	-	717,107	717,107
Appropriation of endowment assets for expenditures	<u>(1,896,590)</u>	<u>-</u>	<u>(1,896,590)</u>
Net assets at end of year	<u>\$ 24,252,950</u>	<u>\$ 25,336,918</u>	<u>\$ 49,589,868</u>

<u>Period Ended June 30, 2013</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at beginning of year	\$ 17,183,195	\$ 22,713,532	\$ 39,896,727
Investment return			
Investment income	420,195	-	420,195
Net appreciation (realized and unrealized)	<u>3,735,700</u>	<u>-</u>	<u>3,735,700</u>
Total investment return	4,155,895	-	4,155,895
Contributions	-	1,906,279	1,906,279
Appropriation of endowment assets for expenditures	<u>(2,428,949)</u>	<u>-</u>	<u>(2,428,949)</u>
Net assets at end of year	<u>\$ 18,910,141</u>	<u>\$ 24,619,811</u>	<u>\$ 43,529,952</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE D – ENDOWMENT (Continued)

The fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor requires the Opera to retain as a fund of perpetual duration. There were no deficiencies at June 30, 2014 or 2013.

NOTE E – EMPLOYEE RETIREMENT BENEFITS

Defined Contribution Pension Plan: The Opera maintains a qualified, non-contributory, defined contribution pension plan covering all full-time administrative non-union employees. Contributions to the plan are made annually based on a formula including such factors as age, salary, and length of service. Total pension expense was \$472,197 and \$451,059 for the periods ended June 30, 2014 and 2013, respectively.

401(k) Plan: The Opera also provides a 401(k) plan which allows eligible full-time administrative non-union employees to make elective deferrals. The Opera makes a matching contribution based on a percentage of each employee's deferral. For the periods ended June 30, 2014 and 2013, the Opera contributed \$89,521 and \$90,812, respectively.

Multiemployer Retirement Plans: The Opera contributes to a number of defined benefit multi-employer pension plans under the terms of collective-bargaining agreements which cover its union-represented employees. The risks of participating in these multi-employer plans are different from single-employer plans in the following respects:

- a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c) If the Opera chooses to stop participating in any of its multi-employer plans, the Opera may be required to pay those plans an amount based on the Opera's proportionate share of unfunded vested plan benefits, referred to as a withdrawal liability.

The Opera participates in eight multi-employer defined benefit plans, two of which are material to the Opera's financial position. The Opera's participation in the plans which cover Orchestra and Stagehand employees is outlined in the following table. "EIN/Pension Plan Number" provides the Employee Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone status available is for the plan's year-end. The zone status is based on information that the Opera received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. "FIP/RP Status" indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. There have been no significant changes that affect the comparability of 2014 and 2013 contributions, other than the Opera's change in fiscal year.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE E – EMPLOYEE RETIREMENT BENEFITS (Continued)

	<u>Orchestra</u>	<u>Stagehands</u>
Pension Fund	American Federation of Musicians and Employers' Pension Fund	Stagehands Local Two Retirement Plan
EIN/pension plan number	51-6120204/001	36-6099766/001
Expiration date of collective bargaining agreement	06/30/2015	06/30/2018
Opera contributions –		
Fiscal 2014	\$936,982	\$968,694
Fiscal 2013	\$953,664	\$857,257
Plan year-end of most recent Form 5500 filing	03/31/2013	12/31/2012
PPA zone status –		
Most recent year	Red	Green
Two years prior	Red	Green
FIP/RP status	Implemented	Not applicable
Surcharge imposed	Yes	No
Opera contributed more than 5% of total contributions	No	Yes

The Opera contributed a total of \$88,388 and \$72,264 to six other defined benefit multi-employer plans in fiscal 2014 and 2013, respectively. The Opera also contributed \$945,907 and \$872,329 to various defined contribution multi-employer plans in fiscal 2014 and 2013, respectively.

Severance Benefits: In addition to contributions to multiemployer retirement plans, the Opera provides severance benefits for the orchestra, chorus, production staff, and dancers. Severance benefits are based on a combination of wages, age, and length of service.

The change in benefit obligations and the funded status of the plans for the periods ended June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 4,040,240	\$ 3,655,130
Plan amendment	-	132,071
Service cost	119,229	152,658
Interest cost	171,096	183,914
Actuarial loss	354,098	251,970
Benefits paid	<u>(113,605)</u>	<u>(335,503)</u>
Benefit obligation, end of period	<u>\$ 4,571,058</u>	<u>\$ 4,040,240</u>
Unfunded Status		
Projected benefit obligation	\$ (4,571,058)	\$ (4,040,240)
Fair value of assets	<u>-</u>	<u>-</u>
Funded status	<u>\$ (4,571,058)</u>	<u>\$ (4,040,240)</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE E – EMPLOYEE RETIREMENT BENEFITS (Continued)

The components of net periodic benefit costs for the periods ended June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Service cost	\$ 119,229	\$ 152,658
Interest cost	171,096	183,914
Amortization of:		
Net transition obligation	19,382	22,612
Prior service cost	(21,112)	(24,632)
Net loss	<u>23,118</u>	<u>11,184</u>
Net periodic benefit cost	<u>\$ 311,713</u>	<u>\$ 345,736</u>

Severance costs not previously recognized as a component of the periodic severance cost, but included as a cumulative separate charge to net assets for the periods ended June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Net transition obligations	\$ 93,676	\$ 113,058
Prior service cost	(81,033)	(102,145)
Net actuarial loss	<u>981,656</u>	<u>650,676</u>
Net amount recognized	<u>\$ 994,299</u>	<u>\$ 661,589</u>

Severance costs included as a separate charge to net assets for the periods ended June 30, 2014 and 2013, consisted primarily of actuarial losses of approximately \$354,000 and \$252,000, respectively and amortization of plan amendments of approximately \$0 and \$132,000, respectively.

Net periodic severance cost expected to be recognized in the next fiscal year is as follows:

	<u>2015</u>
Service cost	\$ 141,429
Interest cost	180,742
Amortization of:	
Net transition obligation	19,382
Prior service cost	(21,113)
Net loss	<u>34,823</u>
Net periodic benefit cost	<u>\$ 355,263</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE E – EMPLOYEE RETIREMENT BENEFITS (Continued)

The key actuarial assumptions used were:

	<u>2014</u>	<u>2013</u>
To determine benefit obligation:		
Discount rate	4.33%	4.81%
Expected rate of pay increases	2.50%	2.00-2.50%
To determine net periodic benefit:		
Discount rate	4.81%	4.55%
Expected rate of pay increases	2.00-2.50%	2.50%

Estimated benefit payments for future fiscal years are as follows:

2015	\$ 396,869
2016	252,702
2017	278,601
2018	403,568
2019	233,939
2020-2024	1,538,609

NOTE F – RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS

Restricted net assets are restricted for the following purposes:

	<u>2014</u>		<u>2013</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Future operating support	\$ 88,779,727	\$ 25,336,918	\$ 63,185,323	\$ 24,619,811
Equipment	<u>2,622,467</u>	<u>-</u>	<u>2,822,559</u>	<u>-</u>
Total	<u>\$ 91,402,194</u>	<u>\$ 25,336,918</u>	<u>\$ 66,007,882</u>	<u>\$ 24,619,811</u>

Temporarily restricted net assets are released from restrictions either by the passage of time or by the fulfillment of a purpose. Restrictions released during the periods ended June 30, 2014 and 2013, are summarized as follows:

	<u>2014</u>	<u>2013</u>
Time restrictions:		
Operating support	\$ 10,014,653	\$ 4,618,703
Purpose restrictions:		
Operating support	12,323,185	9,284,500
Equipment	<u>200,091</u>	<u>241,290</u>
	<u>12,523,276</u>	<u>9,525,790</u>
Total	<u>\$ 22,537,929</u>	<u>\$ 14,144,493</u>

(Continued)

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE G – FUNDRAISING CAMPAIGNS

In December 2012, the Board of Directors approved the Breaking New Ground strategic plan, which laid the foundation for the Breaking New Ground (BNG) campaign. The purpose of the campaign is to support operations of the Opera, increase the endowment, and fund stage and other equipment improvements. In fiscal 2014, the Campaign For Excellence, which was established for the purpose of supporting the operations of the Opera, subject to Finance Committee oversight, was merged with BNG. Management's use of BNG proceeds is subject to the oversight of the Finance Committee and approval of the Board of Directors.

For the periods ended June 30, 2014 and 2013 the Board authorized a distribution of unrestricted proceeds of \$4,776,000 and \$4,823,287, respectively. Such amounts are included in net assets released from restriction and designation.

NOTE H – BONDS PAYABLE

On March 1, 1994, the Illinois Development Finance Authority (the Authority) issued and sold \$62.2 million aggregate principal amount of Variable/Fixed Rate Demand Revenue Bonds, Series 1994 (Lyric Opera of Chicago Project). Pursuant to a Loan Agreement dated as of February 1, 1994 between the Authority and the Opera, the Authority loaned the proceeds of the bonds to the Opera to provide funds to acquire, construct, renovate, remodel, and equip the facility used by the Opera in the production and performance of its programs, to pay interest on the bonds, and to pay certain costs incurred in connection with the issuance of the bonds. The bonds have adjustable methods of interest rate determination and interest payment. As of June 30, 2014, the bonds operated in a mode where the interest rate was established each week and interest on the bonds was payable monthly. On June 30, 2014, the interest rate was 0.05%.

The Opera has agreed to certain financial and operating covenants in an agreement with certain banks providing a credit facility (letter of credit) in the amount of \$63 million which expires August 31, 2016. Under the terms of that agreement, should the bonds become unmarketable, the Opera would be required to pay off such amounts within two years. Interest on such amounts would not exceed the prime rate plus 2%.

Because these bonds operate in a floating interest rate mode and are remarketed at par value weekly, their carrying values approximate fair value.

On August 18, 2008, the Illinois Finance Authority (IFA) issued a \$3.5 million aggregate principal amount tax exempt Revenue Bond, Series 2008. Pursuant to the loan agreement, IFA loaned the proceeds of the bond to the Opera to provide funds to purchase, construct, and equip space for patron hospitality services, and to pay certain issuance costs incurred in connection with the issuance of the bond. The bond has a fixed interest rate of 4.8%, payable monthly.

Bond interest expense was \$213,311 and \$307,923 for the periods ended June 30, 2014 and 2013, respectively.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE H – BONDS PAYABLE (Continued)

Unamortized bond issuance costs were:

	<u>2014</u>	<u>2013</u>
Deferred bond issuance costs	\$ 2,347,620	\$ 2,347,620
Less: accumulated amortization	<u>1,412,011</u>	<u>1,334,954</u>
Net	<u>\$ 935,609</u>	<u>\$ 1,012,666</u>

Future debt maturities are as follows:

August 1, 2018	\$ 3,500,000
December 1, 2028	<u>62,200,000</u>
Total	<u>\$ 65,700,000</u>

NOTE I – DERIVATIVE FINANCIAL INSTRUMENT

On May 9, 2006, the Opera entered into an interest rate swap agreement with the Bank of New York Mellon (BNYM) in order to hedge overall exposure to variable rate debt. The Opera has agreed to pay BNYM interest at a fixed rate of 3.804% with the counterparty paying the Opera a floating rate based on 67% of one-month LIBOR. The interest rate swap agreement has a notional amount of \$40 million and expires December 1, 2028, and has no requirements for collateral posting. The Opera may terminate the interest rate swap early.

Summary information about the interest rate swap agreement as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Weighted average pay rates (fixed)	3.804%	3.804%
Weighted average one-month LIBOR (variable)	0.166%	0.216%

The interest rate swap is recorded at fair value as a liability on the statement of financial position. Interest expense, settled on a net basis, was \$1,477,103 and \$1,707,715 for the periods ended June 30, 2014 and 2013, respectively.

NOTE J – COMMITMENTS

Contracts with Performers and Unions: Future commitments to artists are approximately \$5.4 million in 2014-15; \$4.2 million in 2015-16; \$3.5 million in 2016-17; \$1.9 million in 2017-18 and \$0.5 million in 2018-19, and \$0.6 million for multiple year contracts 2016-20.

The Opera has approximately \$1.4 million in outstanding commitments related to new productions and rental costs, and certain capital acquisitions.

LYRIC OPERA OF CHICAGO
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE J – COMMITMENTS (Continued)

The Opera has collective bargaining agreements with numerous unions. Contracts with the American Guild of Musical Artists, which represents principal artists, choristers, ballet, and production staff, the Chicago Federation of Musicians, which represents the orchestra, and the International Alliance of Theatrical Stage Employees, which represents stagehands, expire June 30, 2015, June 30, 2015, and June 30, 2018, respectively.

The Opera has personal service contracts with seven individuals through June 30, 2021.

NOTE K – RELATED PARTIES, CONFLICTS OF INTEREST AND CODE OF CONDUCT

The Opera maintains a Conflict of Interest Policy which applies to all Directors, officers of auxiliary organizations authorized by the Opera as well as senior management and other designated members of staff. The Policy requires each person to whom the policy applies complete an annual disclosure statement which identifies a business or financial interest related to that person and which is planning to engage in a business transaction with the Opera or has engaged in a business transaction with the Opera during the preceding year.

The Policy forbids such individuals from voting on or using their personal influence in connection with such transactions. In the event the Opera does conduct business with a related party, the financial terms of those relationships are reported annually to the Audit Committee, whose members must be independent per the terms of its charter.

The Opera requires each Administrative employee to conduct themselves in accordance with the Code of Business Conduct and Ethics approved by the Opera's Board of Directors and to sign an annual statement acknowledging their understanding of this Code.

NOTE L – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2014, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the period ended June 30, 2014. Management has performed their analysis through October 30, 2014, the date the financial statements were issued, and has determined there are no subsequent events to disclose. Activities subsequent to this date have not been evaluated by management.

SUPPLEMENTAL SCHEDULES

LYRIC OPERA OF CHICAGO
 SUPPLEMENTAL SCHEDULE
 STATEMENTS OF OPERATING ACTIVITIES
 For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	(Unaudited) <u>2013</u>
Changes in Unrestricted Net Assets		
Operating		
Revenue and Support		
Revenue		
Ticket Sales	\$ 28,877,637	\$ 26,407,357
Spending Draw	7,502,963	7,182,122
Investment Income	247,031	179,710
Other	<u>3,736,516</u>	<u>3,248,891</u>
Total Revenue	<u>40,364,147</u>	<u>37,018,080</u>
Support		
Contributions and Fundraising Revenue, net	12,094,379	13,357,185
Net Assets Released from Restriction and Designation	<u>18,901,189</u>	<u>14,897,919</u>
Total Support	<u>30,995,568</u>	<u>28,255,104</u>
Total Operating Revenue and Support	<u>71,359,715</u>	<u>65,273,184</u>
Expenses		
Artistic, Production and Promotional	61,667,086	56,422,695
Administration	6,628,357	5,893,379
Development	<u>3,064,272</u>	<u>2,957,110</u>
Total Expenses	<u>71,359,715</u>	<u>65,273,184</u>
Change in Operating Net Assets	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

LYRIC OPERA OF CHICAGO
SUPPLEMENTAL SCHEDULE
STATEMENT OF ACTIVITIES – COLUMN FORMAT
For the Year ended June 30, 2014 and For the Fourteen Months Ended June 30, 2013

	For the Year ended June 30, 2014						14 Months Ended
	Unrestricted			Temporarily	Permanently	Total	Total
	Operating	Other	Total	Restricted	Restricted		
Revenue and Support							
Revenue							
Ticket Sales	\$ 28,877,637	\$ -	\$ 28,877,637	\$ -	\$ -	\$ 28,877,637	\$ 26,671,273
Spending Draw	7,502,963	-	7,502,963	-	-	7,502,963	8,342,619
Investment Income, net of Spending Draw	247,031	12,867,448	13,114,479	7,274,949	-	20,389,428	7,619,000
Other	3,736,516	6,306	3,742,822	-	-	3,742,822	3,680,584
Total Revenue	40,364,147	12,873,754	53,237,901	7,274,949	-	60,512,850	46,313,476
Support							
Contributions and Fundraising Revenue, net	12,094,379	1,093,099	13,187,478	40,657,292	717,107	54,561,877	49,267,852
Net Assets Released from Restriction and Designation	18,901,189	3,636,740	22,537,929	(22,537,929)	-	-	-
Unrealized (Loss) Gain on Interest Rate Swap	-	(295,385)	(295,385)	-	-	(295,385)	3,173,866
Total Support	30,995,568	4,434,454	35,430,022	18,119,363	717,107	54,266,492	52,441,718
Total Operating Revenue and Support	71,359,715	17,308,208	88,667,923	25,394,312	717,107	114,779,342	98,755,194
Expenses							
Artistic, Production, and Promotional	61,667,086	3,554,790	65,221,876	-	-	65,221,876	62,097,584
Administration	6,628,357	99,342	6,727,699	-	-	6,727,699	6,802,548
Development	3,064,272	742,565	3,806,837	-	-	3,806,837	3,624,935
Total Expenses	71,359,715	4,396,697	75,756,412	-	-	75,756,412	72,525,067
Change in Net Assets	\$ -	\$ 12,911,511	12,911,511	25,394,312	717,107	39,022,930	26,230,127
Net Assets at Beginning of Year			95,061,711	66,007,882	24,619,811	185,689,404	159,459,277
Net Assets at End of Year			\$ 107,973,222	\$ 91,402,194	\$ 25,336,918	\$ 224,712,334	\$ 185,689,404

See accompanying independent auditor's report.